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C O N F I D E N T I A L SECTION 01 OF 02 ASMARA 000907

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TAGS: [EMIN](#) [ETRD](#) [ECON](#) [ER](#)
SUBJECT: GSE OFFERS HOPE TO CANADIAN MINING COMPANY

REF: ASMARA 000467

Classified By: DCM Jennifer A. McIntyre, for reasons 1.4
(b) and (d).

11. (U) SUMMARY: Canadian company Nevsun publicly announced on October 29 that it was close to finalizing a mining agreement with the Government of the State of Eritrea (GSE), although issues of foreign currency and insurance still remain to be settled. Under this agreement, the GSE, through its Eritrean National Mining Corporation (ENMC) will become a 40% owner of the Nevsun-owned Bisha Mining Corporation. Lacking the foreign capital to purchase the company shares, the GSE received a USD sixty million loan from the Chinese to make this purchase. The GSE's decision to take direct ownership in a mining enterprise is unusual for Africa -- as most other governments opt to profit solely from taxes and customs generated from the industry -- but not surprising as the GSE appears to be placing its hopes on the mining industry to provide in the future a reliable source of critically needed hard currency. END SUMMARY.

THE GSE AGREES TO BUY INTO A MINE

12. (U) Canadian mining company Nevsun announced on October 29 that it was close to completing with the GSE a mining agreement, an agreement it submitted to the Eritrean government nearly a year ago. During the final stages of negotiations, Nevsun accepted the government's offer for the GSE-owned Eritrean National Mining Corporation (ENMC) to assume forty percent ownership in the Nevsun-owned Bisha Mining Corporation (reftel). Eritrean mining law provides the GSE a ten percent ownership in the Bisha Mining Corporation at no cost. The law also allows for the GSE to purchase an additional thirty percent at fair market value. The GSE, through the ENMC, has agreed to purchase the additional thirty percent, at a market value that could exceed USD 130 million. To assist in making an initial purchase, China's Import-Export Bank has agreed to lend the GSE 60 million USD.

NEVSUN: HOPEFUL ABOUT A FINAL AGREEMENT SOON

13. (C) Nevsun Country Director Stan Rogers told Poloff on November 20 that the agreement on the 40/60 split ownership was a significant breakthrough in Nevsun's negotiations with the GSE. Once this agreement is signed, the ENMC will also assume responsibility for forty percent of start-up and operational expenses. Rogers said he had just sent the GSE their "first bill" for the Bisha Mining Corporation expenses. To date, Nevsun has received no money from the GSE/ENMC. As the GSE does not have sufficient funds, even with the Chinese loan, to purchase outright its 30% additional share of the mine or pay for operational costs, Rogers anticipates the GSE/ENMC will make these payments from profits after extraction begins. The Bisha Mining Company will be revalued by an independent third party at that time to determine fair market value for the yet-to-be purchased shares. Rogers commented that he feels confident the GSE will honor the agreement and does not anticipate that the GSE would move to nationalize the company at a later date. However, he acknowledged that the political risk in Eritrea remains high and cited an article in Resource Investor, which described Eritrea as one of the ten worst countries for investment due to political risks.

14. (C) Rogers expressed optimism that the agreement would soon be completed and signed. The final two elements of the agreement under discussion are foreign currency control and insurance. As it waits for the agreement, Nevsun has begun work on the designs for the mine and the environmental assessments and plans. These plans must be approved and reviewed by a GSE cross-disciplinary committee comprised of representatives from various GSE ministries, including: Energy and Mines; Land, Water, and the Environment; Health; and Labor and Human Welfare. Rogers noted that the

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environmental work had stalled initially; however, the committee has made great progress since a new GSE staffer at the Department of Land, Water, and Environment took charge of the project a few months ago. Rogers anticipates actual extraction will begin around the end of 2009.

CHINESE INCREASING INVESTMENT IN ERITREA

15. (C) The USD 60 million loan to the GSE is the largest commercial loan to date from the Chinese to Eritrea. Earlier this year, the Chinese loaned the GSE USD 23 million for telecommunications upgrades. The Chinese Ambassador told Poloff in summer 2007 that he anticipated that China would increase their investment in Eritrea through various mechanisms. The Ambassador noted that in 2004, Chinese investment had reached only USD 6 million but had risen to USD 38 million in 2006. With this loan from the Import-Export Bank, China will have invested nearly USD 100 million in Eritrea by the end of 2007. Most of these loans are "soft loans" - carrying interest rates as low as 2.5 percent - although they may come with other (unknown) strings attached.

COMMENT

16. (C) The GSE's desire for a sizeable minority capital state in the mining ventures is not surprising, as the GSE continues to see mining as its financial savior. Thanks to the GSE's heavy-handed restrictions over the economy, mining remains the only growing industry in Eritrea's private sector. The Chinese may seek access to Eritrea's nascent mining industry in exchange for this soft loan. END COMMENT.
MCMULLEN